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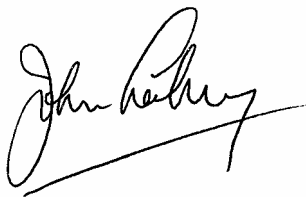
REPORT ON MANAGEMENT RESPONSIBILITY

The accompanying consolidated financial statements and all information contained in this Annual Report are the responsibility of the Management of FirstOntario Credit Union Limited, which is responsible for the integrity and fairness of the information presented. The financial statements, in the opinion of Management, have been prepared using appropriate accounting policies that are in accordance with Canadian generally accepted accounting principles and the Credit Unions and Caisses Populaires Act, 1994 (Ontario) and are based on informed judgments and estimates of the expected effects of current events and transactions.

To meet its responsibility for the integrity and objectivity of data in the financial statements, Management has developed and maintains a system of internal accounting controls. Management believes that this system of internal controls provides reasonable assurance that the financial records are reliable and form a proper basis for preparation of financial statements and that assets are properly accounted for and are safeguarded.

The Board of Directors is responsible for reviewing and approving the consolidated financial statements and for overseeing Management's performance of its financial reporting responsibilities. The Board of Directors carried out its responsibility for the financial statements through its regular review of financial results and operations and through its Audit Committee. The Member-appointed auditors have full and free access to, and meet periodically with, the Audit Committee and the Board of Directors, with or without Management present, to discuss their audit and matters relating to financial statement presentation, internal controls and audit procedures.

KPMG LLP, Member-appointed external auditors, has examined the consolidated financial statements in accordance with Canadian generally accepted auditing standards and their report is shown as part of the consolidated financial statements.



John Lahey
President and Chief Executive Officer



Barry Doan, CA
Vice President and Chief Financial Officer

November 10, 2005

Loan Statistics

For the year ended August 31, 2005

Total retail loan applications received	7,270
Total retail loans declined	1,532

Retail loans granted include:

Personal loans	3,582 for	\$38,705,000
Mortgages	780 for	\$67,300,000
Lines of Credit	1,006 for	\$9,000,000
MeritLines	370 for	\$33,709,000

Commercial loans granted include:

Demand term loans	23 for	\$24,734,000
Demand operating loans	9 for	\$3,502,000
Commercial mortgages	11 for	\$26,320,000

Delinquent loans:

Total loans delinquent, 90 days and over	35 loans
Value of loans delinquent, 90 days and over	\$515,000

REPORT OF THE AUDIT COMMITTEE

FirstOntario Credit Union Limited's Audit Committee is a committee of the Board of Directors pursuant to Section 125 of the Credit Unions and Caisses Populaires Act, 1994 (Ontario). The Committee, which consists of five directors, has a mandate to cover all of the duties, which are specified to be performed by audit committees in the Regulations of the Act. The Audit Committee meets at least four times a year and arranges its agenda so that on an annual basis, the following duties will be performed and appropriate action taken as a result thereof:

- Serve as the principal communication link between the external auditors and the Board of Directors and, in particular, review the terms of engagement and scope of the audit, and review FirstOntario's annual financial statements prior to Board approval for issuance to the Members.
- Obtain a reasonable understanding of the important elements of internal controls that are important to safeguarding the assets of FirstOntario, ensuring the accuracy of financial reports and ensuring compliance with policies and procedures.
- Serve as the Board's liaison with the internal auditor and review the internal audit mandate, work plan and reports.
- Review the policies, procedures and controls, which relate to legislative compliance, with a particular focus on requirements for liquidity, capital adequacy and interest rate management.

Based on its findings, the Audit Committee issues reports and makes recommendations to the Board of Directors or senior management, as appropriate, with respect to the matters outlined above and follows up to ensure that the recommendations are considered and implemented.

The Audit Committee is pleased to report to the Members of FirstOntario that it has fulfilled its annual mandate. The Committee receives full co-operation and support from management to enable it to play an effective role in maintaining the quality of financial reporting to the Members and enhancing the overall control structure of the Credit Union.

There are no significant recommendations made by the Audit Committee that have not been either implemented or are in the process of being implemented. In addition, there are no matters which the Audit Committee believes should be reported to the Members, nor are there any further matters that are required to be disclosed pursuant to the Act or the Regulations thereto.



Val Narduzzi

Chair, Audit Committee

November 14, 2005

AUDITORS' REPORT

To the Members of
FirstOntario Credit Union Limited

We have audited the consolidated balance sheet of FirstOntario Credit Union Limited as at August 31, 2005 and the consolidated statements of earnings, changes in retained earnings and cash flows for the year then ended. These consolidated financial statements are the responsibility of the Credit Union's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Credit Union as at August 31, 2005 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

The image shows the handwritten signature of KPMG LLP in black ink. The letters are bold and slanted, with a horizontal line underneath the signature.

Chartered Accountants

Hamilton, Ontario

November 10, 2005

FIRSTONTARIO CREDIT UNION LIMITED

Consolidated Balance Sheet

August 31, 2005 with comparative figures for August 31, 2004

(In thousands of dollars) 2005 2004

Assets

Loans Receivable from Members

Residential mortgage loans (note 2)	\$ 447,231	\$ 463,552
Personal loans (note 2)	95,647	93,701
Commercial loans (note 2)	182,262	165,391
Accrued interest receivable	3,154	3,011
	728,294	725,655

Other

Cash	14,009	20,066
Investments (note 5)	66,315	52,828
Fixed assets (note 6)	17,767	17,693
Other assets	3,557	3,763
	\$ 829,942	\$ 820,005

Liabilities

Members' Deposits and Shares

Deposits (note 7)	\$ 754,191	\$ 726,299
Membership shares (note 7)	4,723	4,714
Investment shares (note 7)	12,638	12,346
Accrued interest on deposits and shares	8,351	9,262
	779,903	752,621


Other

Loans payable (note 8)	7,000	26,378
Accounts payable and accrued liabilities	9,872	9,791
	796,775	788,790

Members' Equity

Retained earnings	33,167	31,215
	\$ 829,942	\$ 820,005

On behalf of the Board:



Director



Director

See accompanying notes to consolidated financial statements.

FIRSTONTARIO CREDIT UNION LIMITED

Consolidated Statement of Earnings

For the year ended August 31, 2005 with comparative figures for the year ended August 31, 2004

(In thousands of dollars)	2005	2004
Interest Income		
Residential mortgage loans (note 2)	\$ 22,944	\$ 24,575
Personal loans (note 2)	6,382	6,527
Commercial loans (note 2)	11,079	10,708
Derivative instruments (note 9)	1,445	2,203
Other	1,852	1,637
	43,702	45,650
Interest Expense		
Members' deposits and shares (note 7)	18,062	18,968
Dividends on investment shares (note 7)	514	587
Other	188	577
	18,764	20,132
Operating Margin Before the Following		
Provision for impaired loans (note 3)	24,938	25,518
Other income	(240)	(240)
	8,075	6,101
Operating Margin	32,773	31,379
Operating Expenses		
Salaries and employee benefits	17,122	17,521
Administrative (note 11)	10,100	9,163
Occupancy	2,339	2,413
Members' deposit insurance protection (note 1)	670	692
Life insurance on life savings deposits	151	112
Restructuring charge (note 12)	-	275
	30,382	30,176
Earnings Before Income Taxes		
	2,391	1,203
Income taxes (note 13)	439	113
Net Earnings for the Year	\$ 1,952	\$ 1,090

Consolidated Statement of Changes in Retained Earnings

For the year ended August 31, 2005 with comparative figures for the year ended August 31, 2004

(In thousands of dollars)	2005	2004
Balance at beginning of year	\$ 31,215	\$ 30,125
Net earnings for the year	1,952	1,090
Balance at End of Year	\$ 33,167	\$ 31,215

See accompanying notes to consolidated financial statements.

FIRSTONTARIO CREDIT UNION LIMITED

Consolidated Statement of Cash Flows

For the year ended August 31, 2005 with comparative figures for the year ended August 31, 2004

(In thousands of dollars)	2005	2004
Cash Flows from Operating Activities		
Net earnings for the year	\$ 1,952	\$ 1,090
Adjustments for:		
Depreciation and amortization	2,942	2,812
Loss (gain) on sale of fixed assets	15	(71)
Net changes in accrued interest receivable and payable	(1,306)	(1,034)
Net changes in employee retirement benefits accrued benefit liabilities	247	243
Other non-cash items, net	40	(2,064)
Cash flows from operating activities	3,890	976
Cash Flows from Financing Activities		
Net change in deposits	27,892	5,757
Net change in membership shares	9	104
Net change in investment shares	292	32
Net change in loans payable	(19,378)	18,428
Cash flows from financing activities	8,815	24,321
Cash Flows used in Investing Activities		
Net change in loans	(2,496)	(26,470)
Net change investments	(13,235)	1,482
Purchase of fixed assets, net of disposals	(3,031)	(2,911)
Cash flows used in investing activities	(18,762)	(27,899)
Cash		
Net decrease during year	(6,057)	(2,602)
Balance at beginning of year	20,066	22,668
Balance at end of year	\$ 14,009	\$ 20,066
Supplementary Cash Flow Information		
Interest received during the year	\$ 43,307	\$ 45,171
Interest paid during the year	\$ 19,675	\$ 20,687
Income taxes (recovered) paid during the year	\$ (380)	\$ 897

See accompanying notes to consolidated financial statements.

FIRSTONTARIO CREDIT UNION LIMITED

Notes to Consolidated Financial Statements

For the year ended August 31, 2005

1. Significant Accounting Policies:

FirstOntario Credit Union Limited ("FirstOntario") is incorporated under and operates in compliance with the Credit Unions and Caisses Populaires Act of Ontario (the Act) and is a member of the Deposit Insurance Corporation of Ontario (DICO). FirstOntario's member deposits are insured by DICO under a mandatory program, the expense for which amounted to \$670,000 in 2005 and \$692,000 in 2004. At August 31, 2005 there were 66,145 members (2004 – 65,604).

The consolidated financial statements of FirstOntario have been prepared in accordance with Canadian generally accepted accounting principles. The preparation of Consolidated Financial Statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the Consolidated Balance Sheet date and the reported amounts in revenue and expenses during the reporting period. Actual results could differ from those estimates.

The significant accounting policies used in the preparation of these Consolidated Financial Statements are summarized below. These accounting policies conform, in all material respects, to Canadian generally accepted accounting principles.

(a) Basis of Consolidation:

The consolidated financial statements include the assets, liabilities and results of the operations of FirstOntario and its wholly owned subsidiary 1320818 Ontario Limited which supplies information technology services and operates the banking system for FirstOntario. All intercompany transactions and balances have been eliminated.

(b) Loans receivable from members:

Loans receivable from members are stated at amounts advanced less repayments and allowances for impaired loans.

FirstOntario maintains an allowance for impaired loans, which in management's opinion, is considered adequate to absorb all loan-related losses. The allowance for impaired loans represents specific and non-specific provisions. Specific allowances are calculated on individual loans when they become impaired. A loan is impaired at the earlier when, in the opinion of management, there is reasonable doubt as to the collectibility of principal and interest, or when loan payments are 90 days past due. Non-specific allowances are established to absorb probable loan losses not yet specifically identified on a loan-by-loan basis. The non-specific allowance is based on portfolio quality, past experience, current economic conditions and management's judgment.

FIRSTONTARIO CREDIT UNION LIMITED

Notes to Consolidated Financial Statements

For the year ended August 31, 2005

1. Significant Accounting Policies (continued):

(c) Mortgage securitization:

FirstOntario periodically securitizes residential mortgage loans by selling them to Credit Union Central of Ontario (CUCO). CUCO then resells the loans to independent special purpose entities or trusts that issue securities to investors. These transactions are accounted for as a sale when control over the mortgages has been surrendered and FirstOntario has received consideration in exchange.

Gains on these transactions are reported as other income on the consolidated statement of earnings. The amount of these gains is based on the present value of expected future cash flows using management's best estimates of key assumptions such as prepayment rates, excess spread, credit losses and discount rates.

FirstOntario typically retains interests in the transferred mortgages, such as excess interest spread and servicing rights. Revenue from servicing mortgages is recorded as the services are provided.

(d) Investments:

Investments are purchased with the intention of holding the securities to maturity or until market conditions render alternative investments more attractive. Fixed-term investments are carried at amortized cost whereby purchase discounts and premiums are amortized to income over the term to maturity. Investments in equity shares and co-operatives are carried at cost.

Gains and losses on the sale of fixed-term investments are accounted for using the completed transaction method on the settlement date. Investments are written down to fair value when there has been a decline in value that is considered to be other than temporary.

Any write downs or gains and losses on disposal of investments are recorded in the year they occur and included in Other interest income in the Consolidated Statement of Earnings.

(e) Fixed assets:

Fixed assets are stated at cost less accumulated depreciation and amortization. Depreciation on buildings and equipment is provided using the straight-line method at rates based on the estimated useful lives of depreciable assets as follows:

Asset	
Buildings	20 – 40 years
Parking lots and site improvements	10 – 25 years
Equipment	3 – 10 years
Software	3 – 7 years

Amortization of leasehold improvements is provided using the straight-line method applied over the terms of the leases.

FIRSTONTARIO CREDIT UNION LIMITED

Notes to Consolidated Financial Statements

For the year ended August 31, 2005

1. Significant Accounting Policies (continued):

(f) Shares:

Membership and investment shares have certain characteristics similar to demand deposits and are included with those liabilities on the balance sheet. The dividends on shares are reported as interest expense.

(g) Derivative instruments:

Derivative instruments are financial contracts whose value is derived from interest rates or other financial indices in the equity markets. In the ordinary course of business, FirstOntario enters into various derivative contracts, including interest rate swaps and hedges. FirstOntario enters into such contracts to manage interest rate fluctuations as part of FirstOntario's asset/liability management program.

Interest rate swaps involve the periodic exchange of payments without the exchange of the notional principal amount upon which the payments are based. Swaps entered into for the purpose of managing FirstOntario's interest rate exposures are accounted for on the accrual basis. Accrued interest receivable is recorded in "Other assets" and accrued interest payable is recorded in "Other Liabilities". Interest income or expense is recorded in "Interest income" or "Interest expense", as applicable.

Derivative contracts are purchased to hedge deposit products whose interest is linked to various equity indices or a specific bundle of equities. These contracts pay returns based on the change in value of equity indices or a specific bundle of equities.

FirstOntario formally documents all relationships between hedging instruments and hedged items; as well as risk management objectives and strategies for undertaking various hedge transactions. This process includes linking all derivatives to specific assets and liabilities on the Consolidated Balance Sheet or specific firm commitments or forecasted transactions. FirstOntario also formally assesses, both at the hedge's inception and on an ongoing basis, whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items. FirstOntario designates its interest rate hedge agreements as hedges of the underlying debt.

(h) Revenue recognition:

Interest on loans is recognized on the accrual basis except when interest is ninety days past due or earlier when, in the opinion of management, there is doubt as to the collectibility of principal or interest.

(i) Foreign exchange:

Monetary assets and liabilities denominated in foreign currencies, primarily US dollars, are translated into Canadian dollars at rates prevailing at the year-end. Capital assets are carried at the historical Canadian dollar cost. Income and expenses are translated at the exchange rates in effect on the date of the transactions.

FIRSTONTARIO CREDIT UNION LIMITED

Notes to Consolidated Financial Statements

For the year ended August 31, 2005

1. Significant Accounting Policies (continued):

(j) Employee retirement benefits:

FirstOntario provides retirement benefits to certain employees. These benefits include group RRSP's, registered pension plans, medical benefits, dental care and life insurance.

Group RRSP's and defined contribution pension plan contributions are expensed in the year earned.

The costs of defined benefit post-employment benefits (including medical benefits, dental care, life insurance, and defined benefit pension plans) related to the employees' current service is charged to income annually. The cost is computed on an actuarial basis using the projected benefit method estimating the usage frequency and cost of services covered and management's best estimates of investment yields, salary escalation, and other factors. Transitional obligations are being expensed over the average remaining service period of the employees.

FirstOntario uses the corridor method to amortize actuarial gains or losses (such as changes in actuarial assumptions and experience gains or losses) over the average remaining service life of active employees. Under the corridor method, amortization is recorded only if the accumulated net actuarial gains or losses exceed 10% of the greater of the accrued benefit obligation and the value of the plan assets. The average remaining service period of the active employees covered by the defined benefit pension plans is 13 years. The average remaining service period of the active employees covered by the other post-employment benefit plan is 9 years.

When the restructuring of a benefit plan gives rise to a curtailment, the curtailment is accounted for at the time of restructuring.

(k) Income taxes:

FirstOntario follows the asset and liability method of accounting for income taxes, whereby FirstOntario recognizes both the current and future income tax consequences of all transactions that have been recorded in the financial statements. Future income tax assets and liabilities are determined based on the tax rates that are expected to apply when the assets or liabilities are reported for tax purposes.

Future tax assets and liabilities are included either in "Other assets" or "Accounts payable and accrued liabilities", as applicable, in the Consolidated Balance Sheet.

FIRSTONTARIO CREDIT UNION LIMITED

Notes to Consolidated Financial Statements

For the year ended August 31, 2005

2. Loans Receivable from Members:

Loans receivable from members are as follows:

(In thousands of dollars)	2005	2004
Residential Mortgage Loans	\$ 447,233	\$ 463,554
Allowance for impaired loans	(2)	(2)
	447,231	463,552
Personal Loans	96,452	94,558
Allowance for impaired loans	(805)	(857)
	95,647	93,701
Commercial Loans	183,778	166,926
Allowance for impaired loans	(1,516)	(1,535)
	182,262	165,391
	\$ 725,140	\$ 722,644

Interest income for the year is as follows:

(In thousands of dollars)	Year Ended August 31 2005	Year ended August 31 2004
Residential Mortgage Loans	\$ 22,944	\$ 24,575
Personal Loans	6,382	6,527
Commercial Loans	11,079	10,708
	\$ 40,405	\$ 41,810

The following summarizes FirstOntario's loan portfolio by the contractual repricing or maturity date, whichever is earlier:

(In thousands of dollars)	2005		2004	
	Principal Balance	Average Yield	Principal Balance	Average Yield
Floating	\$ 226,962	4.81%	\$ 212,420	4.36%
Within 1 year	76,422	6.19%	89,509	5.96%
Over 1 year	424,079	6.07%	423,109	6.36%
	727,463	5.69%	725,038	5.72%
Provision for loan losses	(2,323)		(2,394)	
	\$ 725,140		\$ 722,644	

FIRSTONTARIO CREDIT UNION LIMITED

Notes to Consolidated Financial Statements

For the year ended August 31, 2005

3. Allowance for Impaired Loans:

A summary of the allowance for impaired loans is as follows:

(In thousands of dollars)	2005			2004		Total
	Specified	Non-Specified	Total	Specified	Non-Specified	
Balance at beginning of year	\$ 259	\$ 2,135	\$ 2,394	\$ 202	\$ 2,168	\$ 2,370
Loans written off	(428)	-	(428)	(324)	-	(324)
Recoveries	117	-	117	108	-	108
Net provision for impaired loans	253	(13)	240	273	(33)	240
Balance at end of year	\$ 201	\$ 2,122	\$ 2,323	\$ 259	\$ 2,135	\$ 2,394

Impaired loans on which interest was not accruing totalled \$515,000 at August 31, 2005 (2004 - \$1,912,000).

4. Mortgage Securitization

The following table summarizes FirstOntario's securitization activity during the year ended August 31, 2005:

(In thousands of dollars)	2005
Principal value of mortgages sold	\$ 34,034
Net cash proceeds received	33,694
Retained rights to cash reserves	340
Retained rights to future excess spread	1,525
Pre-tax gain on sale	1,380

Retained rights are reported as investments on the consolidated balance sheet (note 5).

The following table summarizes the weighted average key assumptions at the date of securitization:

	2005
Average life	4.1 years
Prepayment rate (%/year)	9.60%
Excess spread	1.95%
Discount rate	4.88%

The discount rate includes an allowance for expected credit losses.

FIRSTONTARIO CREDIT UNION LIMITED

Notes to Consolidated Financial Statements

For the year ended August 31, 2005

5. Investments:

Investments are as follows:

(In thousands of dollars)	2005	2004
Fixed rate deposits	\$ 11,381	\$ 7,631
Liquidity reserve deposits – CUCO	37,289	37,049
Bonds, debentures and other indebtedness of Canada, provinces and corporations	4,460	1,515
Preferred shares	3,496	3,082
Common shares	2,458	1,061
Accrued interest	686	434
Total liquid investments	59,770	50,772
Shares – CUCO	4,818	1,635
Investments in joint ventures	137	421
Retained rights – mortgage securitizations	1,590	-
	\$ 66,315	\$ 52,828

Market value for liquid investments was \$59,938,000 at August 31, 2005 (2004 - \$50,717,000).

The following summarizes FirstOntario's investments by the contractual repricing or maturity date, whichever is earlier:

(In thousands of dollars)	2005		2004	
	Principal Balance	Average Yield	Principal Balance	Average Yield
Within 1 year	\$ 35,248	2.88%	\$ 44,659	2.23%
Over 1 year	17,683	3.33%	1,536	5.64%
	52,931	3.03%	46,195	2.34%
Non-rate sensitive	12,698		6,199	
Accrued interest	686		434	
	\$ 66,315		\$ 52,828	

FirstOntario is a member of the Credit Union Central of Ontario (CUCO) and holds \$4,818,000 of CUCO's shares as a requirement of membership. These shares, which are carried at cost, are realizable only through withdrawal from membership and have no separately quoted market value.

In addition, CUCO requires that member credit unions maintain with them a liquidity reserve deposit equal to 5% of the member credit union's members' deposits and shares which is determined annually at December 31st.

FIRSTONTARIO CREDIT UNION LIMITED

Notes to Consolidated Financial Statements

For the year ended August 31, 2005

6. Fixed Assets:

(In thousands of dollars)	2005		2004	
	Cost	Accumulated depreciation and amortization	Net book value	Net book value
Land	\$ 1,456	\$ -	\$ 1,456	\$ 1,276
Parking lots/ Site improvements	465	270	195	210
Buildings	10,779	4,890	5,889	5,037
Equipment	10,683	7,987	2,696	3,188
Software	10,254	3,416	6,838	7,278
Leasehold improvements	1,614	921	693	704
	\$ 35,251	\$ 17,484	\$ 17,767	\$ 17,693

Depreciation and amortization in respect of the above fixed assets for the year amounts to \$2,942,000 (2004 - \$2,812,000).

7. Members' Deposits and Shares:

(a) Members' deposits and shares are as follows:

(In thousands of dollars)	2005		2004	
Chequing	\$ 107,204	\$ 106,937		
Savings	165,825	103,163		
Term Deposits	165,973	201,998		
Registered Plans	315,189	314,201		
	754,191	726,299		
Membership shares	4,723	4,714		
Investment shares	12,638	12,346		
	\$ 771,552	\$ 743,359		

Included in registered retirement plans and term deposits are \$4,777,000 in Indexed Linked Deposits. See note 9 for the related derivatives used to hedge exposure to equity market risk.

FIRSTONTARIO CREDIT UNION LIMITED

Notes to Consolidated Financial Statements

For the year ended August 31, 2005

7. Members' Deposits and Shares (continued):

Interest expense for the year is as follows:

(In thousands of dollars)	Year Ended August 31 2005	Year ended August 31 2004
Chequing	\$ 108	\$ 135
Savings	1,188	405
Term Deposits	5,710	6,459
Registered Plans	10,713	11,663
Membership shares	343	306
	18,062	18,968
Investment shares	514	587
	\$ 18,576	\$ 19,555

The following summarizes FirstOntario's members' deposits by the contractual repricing or maturity date, whichever is earlier:

(In thousands of dollars)	2005		2004	
	Principal Balance	Average Yield	Principal Balance	Average Yield
Floating	\$ 110,636	1.81%	\$ 33,658	0.83%
Within 1 year	193,354	2.75%	236,432	2.96%
Over 1 year	277,855	3.62%	271,263	3.83%
	581,845	2.99%	541,353	3.26%
Non-rate sensitive	189,707		202,006	
	\$ 771,552		\$ 743,359	

(b) Members' deposits and investment shares held in registered plans are as follows:

(In thousands of dollars)	2005	2004
Registered savings plans		
Deposits	\$ 205,354	\$ 204,532
Investment shares	5,651	5,888
	211,005	210,420
Registered income funds		
Deposits	109,835	109,669
Investment shares	3,233	2,912
	113,068	112,581
	\$ 324,073	\$ 323,001

Co-operative Trust Company of Canada Limited acts as the trustee for the majority of FirstOntario's tax deferred savings plans (registered retirement savings plans and registered retirement income funds). FirstOntario accepts deposits on behalf of the trustee and retains the funds deposited.

FIRSTONTARIO CREDIT UNION LIMITED

Notes to Consolidated Financial Statements

For the year ended August 31, 2005

7. Members' Deposits and Shares (continued):

(c) FirstOntario's shares:

Authorized

An unlimited number of membership shares. Such shares are issued for \$5 each and members under the age of twenty-one must hold one membership share while those twenty-one and over are required to hold at least five shares and increase their holdings of membership shares to twenty-three shares over an eighteen year period. Membership shares are redeemable, on withdrawal from membership, at the amount paid thereon provided the credit union is meeting the "capital adequacy" requirements (see note 17(c)) and they rank junior to Class A and Class B special shares for priority in the payment of dividends.

An unlimited number of Class A and Class B special shares. Such shares are generally non-voting and non-participating with non-cumulative dividend entitlements. In respect of dividends, both classes rank senior to the membership shares and the Class B special shares rank ahead of the Class A special shares.

The Board of Directors has authorized a Series 1 and Series 2 for Class B special shares ("investment shares"). The investment shares have an issue price of \$1 each and are entitled to receive dividends if, as and when declared by the Board of Directors. Investment shares are generally redeemable at the holder's request 3 years subsequent to issue for Series 1 and 5 years subsequent to issue for Series 2. In any fiscal year, redemptions are restricted to 10% of the respective series of the outstanding investment shares.

Issued and Outstanding

(In thousands of dollars)	2005	2004
Membership shares:		
944,665 (2004 – 942,877) Membership Shares	\$ 4,723	\$ 4,714
Investment shares:		
5,327,474 (2004 – 5,250,683) Class B, Series 1, Special Shares	\$ 5,327	\$ 5,251
7,310,742 (2004 – 7,095,291) Class B, Series 2, Special Shares	7,311	7,095
	\$ 12,638	\$ 12,346

On January 27, 2005, the Board of Directors approved the issue of 237,489 Class B, Series 1, Special Shares and 321,672 Class B, Series 2, Special Shares in payment of a dividend for the year from December 1, 2003 to November 30, 2004. In addition, 160,698 Class B, Series 1, Special Shares and 106,221 Class B, Series 2, Special Shares were redeemed during the year.

FIRSTONTARIO CREDIT UNION LIMITED

Notes to Consolidated Financial Statements

For the year ended August 31, 2005

8. Loans Payable:

(In thousands of dollars)	2005	2004
CUCO operating loan	\$ 7,000	\$ 6,000
CUCO secured financing	-	20,378
	\$ 7,000	\$ 26,378

CUCO operating loan bears average interest of 2.89%, payable monthly, principal is due on December 2005 with an option of pay out September 2005, which was exercised. Security pledged is set out in note 15(c).

9. Derivative Instruments:

(a) Asset Liability Management:

In the ordinary course of business, FirstOntario purchases derivative instruments from CUCO in order to hedge against exposure to interest rate fluctuations.

Derivative instruments have a fair value that varies based on the particular instrument and changes in interest rates. The purpose of these instruments is to provide a hedge against interest rate fluctuations by improving FirstOntario's matching of its asset and liability position.

(b) Product Related:

FirstOntario offers deposit products linked to changes in equity indexes or specific bundles of equities. FirstOntario hedges the underlying risk of these products by entering into derivative contracts. Under the terms of these contracts, FirstOntario will receive payments equal to the future payments to members.

The following table summarizes the notional amounts, maturities and fair values of FirstOntario's derivative portfolio:

(In thousands of dollars)	Within 1 year	1 to 5 years	Over 5 years	Total	Fair Value
Received fixed					
interest swaps	\$ 50,000	\$ 53,500	\$ -	\$ 103,500	\$ 1,609
Pay fixed					
interest swaps	-	7,446	12,326	19,772	(582)
Equity hedges	1,414	3,363	-	4,777	1,052
	\$ 51,414	\$ 64,309	\$ 12,326	\$ 128,049	\$ 2,079

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Notes to Consolidated Financial Statements

For the year ended August 31, 2005

10. Fair Values of Financial Instruments:

The following table represents the fair values of FirstOntario's on and off-balance sheet financial instruments. The fair values disclosed do not include the value of assets that are not considered financial instruments, such as fixed assets. The value of intangibles such as long-term member relationships are also not included in the fair value amounts, although FirstOntario considers the value of intangibles to be significant.

While the fair value amounts are intended to represent estimates of the amounts at which these instruments could be exchanged in a current transaction between willing parties, many of FirstOntario's financial instruments lack an available trading market. Consequently, the fair values presented are estimates derived using present value and other valuations techniques and may not be indicative of the net realizable values.

Due to the judgment used in applying a wide range of acceptable valuation techniques and estimates in calculating fair value amounts, fair values are not necessarily comparable among financial institutions. The calculation of estimated fair values is based on market conditions at a specific point in time and may not be reflective of future fair values.

(In thousands of dollars)	Book Value	Fair Value	Fair Value Excess (Difference)
Financial Assets			
Loans receivable	\$ 728,294	\$ 729,730	\$ 1,436
Cash	14,009	14,009	-
Investments	66,315	66,483	168
	\$ 808,618	\$ 810,222	\$ 1,604
Financial Liabilities			
Deposits and shares	\$ 779,903	\$ 786,324	\$ (6,421)
Loans	7,000	7,008	(8)
	\$ 786,903	\$ 793,332	\$ (6,429)
Derivative instruments	\$ -	\$ 2,079	\$ 2,079

Interest rate sensitivity is the main cause of change in fair values of FirstOntario's financial instruments. The book values are not adjusted to reflect the fair value, as it is FirstOntario's intention to realize their value over time by holding them to maturity.

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Notes to Consolidated Financial Statements

For the year ended August 31, 2005

10. Fair Values of Financial Instruments (continued):

The following methods and assumptions were used to estimate the fair value of financial instruments:

- (a) The fair value of cash is assumed to approximate their book values, due to their short-term nature.
- (b) The estimated fair value of floating rate loans, demand deposits and floating rate deposits area assumed to be equal to book value as the interest rates on these loans and deposits reprice to market on a periodic basis.
- (c) The estimated fair value of fixed rate investments, fixed rate loans and fixed rate deposits is determined by discounting the expected future cash flows of these investments, loans, deposits and borrowings at current market rates for products with similar terms and credit risks.

11. Administrative Expenses:

Administrative expenses in 2004 have been reduced by \$1,014,000 to reflect the settlement of previously expensed banking system costs.

12. Restructuring Charge:

FirstOntario commenced a restructuring of its operations in 2003 that continued in 2004. The restructuring charges in 2004 were related to employee severance and support costs.

13. Income Taxes:

FirstOntario's effective income tax rates are derived as follows:

	August 31 2005	August 31 2004
Combined basic Canadian Federal and Ontario income tax rate	43.1%	43.1%
Small business and credit union deductions	(23.0)	(22.2)
Large corporation tax	1.1	2.2
Income and expense permanent differences	(2.7)	(4.0)
Tax rate change	(0.3)	(13.1)
Other	0.2	3.3
Effective income tax rates	18.4%	9.3%

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Notes to Consolidated Financial Statements

For the year ended August 31, 2005

14. Interest Rate Sensitivity:

FirstOntario offers a range of financial products for which the cash flows are sensitive to interest rate changes. Interest rate risk arises from on and off-balance sheet cash flow mismatches. FirstOntario's interest rate risk as at August 31, 2005 was within regulatory guidelines.

The following table summarizes carrying amounts of Consolidated Balance Sheet assets, liabilities and equity, and derivative instruments to arrive at FirstOntario's interest rate gap based on the earlier of contractual repricing and maturity dates:

(In thousands of dollars)						
	Within 3 Months	3 Months to 1 Year	1 to 5 Years	Over 5 years	Non Interest Sensitive	Total
Assets						
Loans receivable	\$ 238,836	\$ 64,548	\$ 415,961	\$ 8,118	\$ (2,323)	\$ 725,140
Cash	-	-	-	-	14,009	14,009
Investments	15,295	19,953	17,683	-	13,384	66,315
Other	-	-	-	-	24,478	24,478
	254,131	84,501	433,644	8,118	49,548	829,942
Liabilities and equity						
Deposits and shares	152,958	151,032	277,845	10	189,707	771,552
Loans	7,000	-	-	-	-	7,000
Other	-	-	-	-	51,390	51,390
	159,958	151,032	277,845	10	240,242	829,942
On-balance sheet gap	94,173	(66,531)	155,799	8,108	(191,549)	-
Off-balance sheet gap	(110,081)	45,000	77,407	(12,326)	-	-
Interest rate gap	\$ (15,908)	\$ (21,531)	\$ 233,206	\$ (4,218)	\$ (191,549)	\$ -

15. Commitments:

(a) Leases:

FirstOntario leases space for most of its branches and some computer equipment. Total future lease payments are as follows:

(In thousands of dollars)	
2006	\$ 990
2007	939
2008	950
2009	768
2010	572
Aggregate for years thereafter	1,495

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Notes to Consolidated Financial Statements

For the year ended August 31, 2005

15. Commitments (continued):

(b) Mortgage commitments and lines of credit:

At August 31, 2005, FirstOntario has issued commitments to provide residential mortgage and commercial loans totalling \$30.8 million. FirstOntario has also provided lines of credit to Members totalling \$329.2 million at August 31, 2005, against which Members have drawn \$162.0 million.

(c) Credit facilities:

CUCO has provided an operating loan facility to FirstOntario of \$50.0 million. Loans to Members have been pledged as security for this facility and the term loan by an assignment of book debts and a general security agreement. See note 8 for the outstanding amount on this facility.

(d) Banking system support contract:

FirstOntario has entered into contracts for support services and software maintenance totaling \$2.2 million over the next 5 years.

16. Employee Retirement Benefits:

FirstOntario provides retirement benefits to certain employees. These benefits include group RRSP's, registered pension plans, medical benefits, dental care and life insurance.

The fair values of plan assets and accrued benefit obligations were determined by independent actuaries as at August 31, 2005.

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Notes to Consolidated Financial Statements

For the year ended August 31, 2005

16. Employee Retirement Benefits (continued):

(In thousands of dollars)	Defined Benefit Pensions		Other Defined Benefit Plans	
	2005	2004	2005	2004
Accrued benefit obligation				
Balance at the beginning of year	\$ 8,095	\$ 7,689	\$ 5,163	\$ 4,832
Current service cost	344	394	146	138
Interest cost	425	470	314	296
Benefits paid	(189)	(465)	(140)	(103)
Actuarial loss (gain)	1,577	7	1,480	-
Past service costs	41	-	-	-
Curtailment	(306)	-	-	-
Balance at end of year	9,987	8,095	6,963	5,163
Plan assets				
Fair value at beginning of year	7,196	6,200	-	-
Annual return on plan assets	809	670	-	-
Employer contributions	725	767	140	103
Employee contributions	23	24	-	-
Benefits paid	(189)	(465)	(140)	(103)
Fair value at end of year	8,564	7,196	-	-
Funded status – deficit	(1,423)	(899)	(6,963)	(5,163)
Unamortized net actuarial loss (gain)	2,360	1,557	2,042	566
Unamortized past service costs	80	116	-	-
Unamortized transitional obligation (asset)	(189)	(190)	882	1,049
Accrued benefit asset (liability)	\$ 828	\$ 584	\$ (4,039)	\$ (3,548)

During 2004, FirstOntario developed a new, comprehensive pension and benefit program for management that replaces the existing programs inherited from predecessor credit unions. A key component of this change was the curtailment of the defined benefit pension for management employees of the former Family Savings and Credit Union (Niagara) Limited as at December 31, 2004. As at January 1, 2005 these management employees joined FirstOntario's defined contribution pension plan. As a result of this change, the curtailment gain amounted to \$306,000. This gain is reduced by unamortized actuarial losses, past service costs and transitional obligation. The resulting net curtailment gain of \$24,000 was used to reduce the 2005 pension expense.

The following table provides the amounts recognized in the Consolidated Balance Sheet as follows:

(In thousands of dollars)	Defined Benefit Pensions		Other Defined Benefit Plans	
	2005	2004	2005	2004
Prepaid benefit costs recorded				
in Other assets	\$ 1,398	\$ 1,043	\$ -	\$ -
Accrued benefit liability recorded				
in Other liabilities	570	459	4,039	3,548
Net amount recognized	\$ 828	\$ 584	\$ (4,039)	\$ (3,548)

FIRSTONTARIO CREDIT UNION LIMITED

Notes to Consolidated Financial Statements

For the year ended August 31, 2005

16. Employee Retirement Benefits (continued):

The significant actuarial assumptions adopted in measuring FirstOntario's accrued benefit obligation are as follows (weighted-average assumptions):

	Defined Benefit Pensions		Other Defined Benefit Plans	
	2005	2004	2005	2004
Discount rate	5.25%	6.00%	6.00%	6.00%
Expected long-term rate of return				
on plan assets	6.50%	6.50%	-	-
Rate of compensation increase	3.00%	3.00%	-	-

For measurement purposes, 12.0% and 3.0% rates of increase in the per capita cost of covered health care and dental care benefits respectively were assumed for 2005. The rate for health care benefits was assumed to decrease to 5.0% by 2013 and remain at that level thereafter. The rate for dental care benefits was assumed to remain unchanged at 3.0%.

A one percentage-point change in assumed health-care cost trend rates would have the following impact on other defined benefit plans:

(In thousands of dollars)	2005	
	Obligation	Expense
1% increase	\$ 1,333	\$ 102
1% decrease	(1,047)	(79)

FirstOntario's net benefit plan expense is as follows:

(In thousands of dollars)	Defined Benefit Pensions		Other Defined Benefit Plans	
	2005	2004	2005	2004
Current service cost, net of employee's contributions	\$ 321	\$ 370	\$ 146	\$ 138
Interest cost	425	470	314	296
Expected return on assets	(417)	(413)	-	-
Amortization of past service costs	7	7	-	-
Amortization of net actuarial loss	200	90	6	10
Amortization of transitional obligation	(27)	(22)	166	166
Curtailment gain	(24)	-	-	-
Net benefit plan expense	\$ 485	\$ 502	\$ 632	\$ 610

(In thousands of dollars)	Defined Contribution Pension	
	2005	2004
Net benefit plan expense	\$ 481	\$ 526

These net benefits expenses are included in "Salaries and employee benefits".

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Notes to Consolidated Financial Statements

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17. Required Disclosures:

The following disclosures are required by the Credit Unions and Caisses Populaires Act, 1994 (Ontario):

- (a) The aggregate remuneration paid to directors was \$100,000 in 2005 (2004 - \$88,000).
- (b) Outstanding loans to directors and officers of FirstOntario amounted to \$1,592,000 at August 31, 2005 (2004 - \$1,530,000).
- (c) Regulatory compliance:

Under the Regulations of the Act, FirstOntario must maintain minimum levels of capital and liquidity. At August 31, 2005, FirstOntario complied with these requirements as follows:

	Required Minimum	Actual
Leverage ratio (members' capital to assets)	5.00%	6.08%
Risk capital ratio (members' capital to risk weighted assets)	8.00%	11.05%
Liquidity (cash and short term investments to members' deposits)	8.00%	8.12%